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LITTLE CHANGE IN STORE FOR THE FUTURE

Economic growth is likely to remain sub-par well into the foreseeable future in Pennsylvania. At various times earlier in the economic recovery, strength in individual sectors, especially services and construction, helped revive the economy just as it appeared that the expansion was near an end. **While it is doubtful that the economy's current sluggish state represents the onset of recession, it does not appear likely that any individual sector will step forward and help propel the State onto a higher growth path.**

It appears safe to argue that, for the most part, Pennsylvania has not performed up to nationwide norms throughout much of the current economic recovery, dating back to the 1982/1983 period. Recent research by the U.S. Department of Commerce drives this point home (table and chart). Over the 1979-1988 period, both job and population growth in Pennsylvania was considerably less than one-half the rate of expansion in the nation. Income growth was approximately 60 percent of the U.S. average. Commerce's long-range forecast, covering the 1988-2000 period, calls for Pennsylvania's sub-par performance to continue, though the gap with the U.S. is expected to lessen.

In reply, it may be argued that sluggish population growth will naturally bring down the rate of growth in certain measures of the economy's health, especially aggregate measures such as total jobs and income. While there may be some merit to this argument, it should be kept in mind that slow population growth, itself, is at least partly the result of the relatively poor showing on the part of the Pennsylvania economy. **At the least, historical and forecasted trends suggest that Pennsylvania accounts for a smaller share of total domestic economic activity and is likely to account for an even smaller share in the years ahead.**

The most recent batch of economic data covers the month of May. **While there is (very) scattered evidence of minimal improvement in some measures of goods producing activity, it does not provide any convincing evidence that several months of sluggishness is nearing an end. With respect to construction, residential activity remains in the doldrums.** The value of residential construction contracts awarded is essentially unchanged from April readings after seasonal adjustment and is down considerably from a year ago. So far this year, the number of new housing units authorized by permit is down 16 percent from the first five months of 1989. Recent trends also point to sluggishness on the nonresidential side. If there is any good news on the construction front in recent months, it has to do with nonbuilding projects (e.g. highways, airports, sewage systems, etc.).

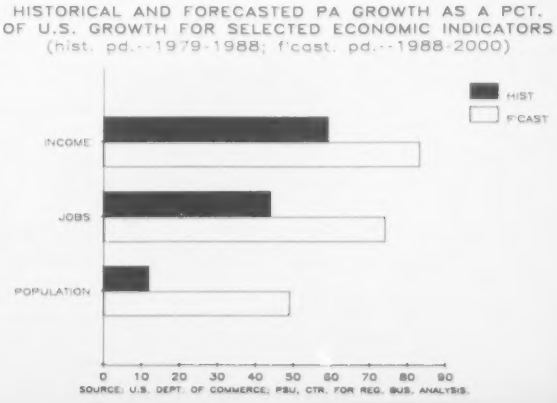
Sluggish residential housing activity is reflected in recent price trends. **The increase in average permit valuations for single-family units in 1989 and so far in 1990 is the smallest recorded since 1982, at the height of the recession** (chart). While this is not a precise measure of trends in market prices, it is probably a good qualitative measure.

Last month, considerable deterioration in several measures of manufacturing's health was noted. At the time, caution against reading too much into these trends was exercised as they appeared to present the situation in an overly-pessimistic light. Such caution was apparent-

Historical and forecasted PA and U.S. trends for selected economic indicators (ave. ann. pct. chg.; historical period — 1979-1988; forecast period — 1988-2000)

	Personal Income		Total Jobs		Population	
	Hist	F'cast.	Hist.	F'cast.	Hist.	F'cast.
PA	1.5	1.6	0.8	0.8	0.1	0.4
U.S.	2.6	2.0	1.9	1.1	1.0	0.7

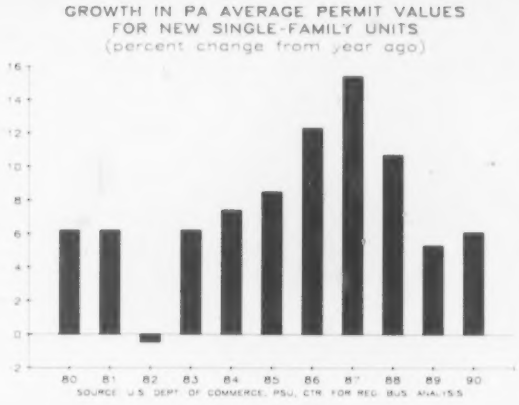
Source: U.S. Dept. of Commerce, Bur. of Econ. Analysis and Bur. of the Census; PSU, Ctr. for Reg. Bus. Analysis.


HISTORICAL AND FORECASTED PA GROWTH AS A PCT. OF U.S. GROWTH FOR SELECTED ECONOMIC INDICATORS
(hist. pd.--1979-1988; f'cast. pd.--1988-2000)
HIST
F'CAST
INCOME
JOBS
POPULATION
0 10 20 30 40 50 60 70 80 90
SOURCE: U.S. DEPT. OF COMMERCE, PSU, CTR. FOR REG. BUS. ANALYSIS.

New Pennsylvania building permit authorizations (percent change from year ago)

	May	Pct. chg.	Year-to-date	Pct. chg.
Residential	3,975	– 18.7	16,507	– 16.4
Nonresidential	2,373	– 15.7	7,867	– 10.2

Source: U.S. Dept. of Commerce, Bureau of the Census.

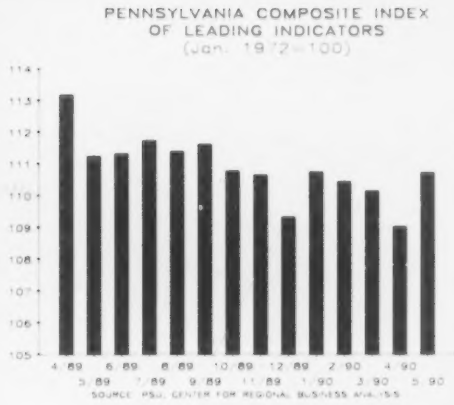


ly well-founded as essentially all non-job indicators reversed their April plunge in May. As hinted at last month, the timing of the Easter holiday probably contributed greatly to April's especially poor showing. Such measures as earnings, hours worked, and production each returned to pre-April readings in May. Unfortunately, even pre-April readings of the factory sector's health are, for the most part, relatively

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1990		1989	1990		1989	1990		1989
	April	*May*	*May*	*April*	*May*	*May*	*April*	*May*	*May*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,137	5,153	5,131	5,136*	5,135	5,109	112.5	112.5	111.9
Service Producing									
No. of wage and salary jobs (thous.)	3,854	3,862	3,813	3,845	3,847	3,797	128.5	128.6	126.9
Transportation and public utilities	254*	253	257	253*	251	255	96.7*	95.9	97.5
Wholesale trade	282	282	280	282	282	279	127.2*	127.1	126.0
Retail trade	889*	890	895	896*	891	896	125.0*	124.3	124.9
Finance, insurance & real estate	296	297	296	297	297	296	136.6*	136.4	136.0
Service & miscellaneous	1,409	1,412	1,379	1,405	1,408	1,374	162.9	163.2	159.3
Federal government	147	153	144	146	153	144	113.7	119.3	112.1
State & local government	578	575	561	566	565	552	97.1	97.0	94.6
Goods Producing									
No. of wage and salary jobs (thous.)	1,282	1,289	1,313	1,291	1,288	1,312	82.0*	81.8	83.3
Construction	226	233	235	233	232	233	126.6*	126.2	126.7
Mining	27	27	28	28	27	28	57.3	56.7	57.3
Manufacturing	1,028	1,029	1,051	1,031	1,029	1,052	76.9*	76.7	78.4
Durable goods	584	584	603	585	584	602	72.2	72.1	74.3
Nondurable goods	444	444	449	447	446	450	83.9	83.8	84.6
Ave. wkly. hrs. worked by prod. workers	39.5*	40.7	40.7	39.7*	40.9	40.9	100.5*	103.6	103.5
Total wkly. person-hours worked (mils.)	28.0	28.9	29.6	28.2	29.0	29.8	73.6*	75.6	77.5
Total wkly. payroll (mil. dols.)	305.9*	318.0	313.5	308.1*	320.3	315.6	137.1*	142.5	140.5
Average hourly earnings (dollars)	10.91	11.02	10.59	10.90	11.04	10.61	186.3*	188.8	181.3
Average weekly earnings (dollars)	430.95	448.51	431.01	433.55	452.13	434.29	187.4*	195.4	187.7
Steel production (thous. tons)	1,027	1,067	1,120	n.a.	n.a.	n.a.	40.7	44.5	46.7
Industrial electric power sales (mil. kwh)	3,713	3,751	3,787	3,763	3,835	3,857	101.9	103.9	104.4
Mining									
Anthracite coal (thous. net tons)	297	329	276	320	332	277	65.5	68.0	56.7
Bituminous coal (thous. net tons)	5,821	6,546	5,752	5,682	6,059	5,322	80.6	85.9	75.5
Construction contracts awarded (mil. dols.)									
Total	816.5	977.7	920.8*	796.9	883.9	840.4*	247.7	274.7	261.2
Residential building	337.3	377.5	436.5*	298.7	307.4	370.4*	212.2	218.4	263.2*
Nonresidential building	280.5	244.7	300.8*	315.5	240.2	296.4*	290.8	221.4	273.2*
Nonbuilding (utilities and public works)	198.7	355.5	183.4*	182.7	336.3	173.6*	252.1	464.0	239.5*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,562	5,604	5,567	5,602	5,643	5,605	116.6	117.4	116.6
Unemployed									
No. of persons (thous.)	315	285	259	340	293	267	84.8	73.1	66.7
Rate (percentage of labor force)	5.4	4.8	4.4						
Rate, seasonally adjusted				5.7	4.9	4.5			
Civilian labor force, no. of persons (thous.)	5,878	5,889	5,826	5,942	5,936	5,872	114.1	114.0	112.8
Initial claims for unemployment benefits	88,941	84,675	82,601	92,942	100,050	93,612	64.9	69.9	65.4

Consumer Prices, all items	Urban Indexes (1982-84 = 100)			Percentage Change	
	1990		1989	*Month Ago*	*Year Ago*
	March	*April*	*April*		
U.S. city average	128.9	129.2	123.8	0.2	4.4
Philadelphia	134.3	134.6	127.9	0.2	5.2
Pittsburgh	124.9	n.a.	119.2	n.a.	4.8

[1] Total includes workers on strike. * = figure revised § = figure for April 1989 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.



Pennsylvania Composite Indexes

	Index		Percentage Change from Preceding Month	
	Leading	*Coincident*	*Leading*	*Coincident*
September	111.6	84.2	0.2	-0.4
October	110.8	84.1	-0.7	-0.1
November	110.6	84.6	-0.2	0.6
December	109.3	83.6	-1.2	-1.2
January 1990	110.7	84.1	1.3	0.6
February	110.4	84.0	-0.3	-0.1
March	110.2	83.6	-0.3	-0.4
April	109.0	82.1	-1.1	-1.8
May	110.7	83.6	1.6	1.8

weak. This turnaround, most notably in the average workweek and inflation-adjusted weekly earnings, contributed greatly to a strong gain in the index of leading economic indicators (chart).

However, the manufacturing job situation continues to deteriorate. May brings with it another reduction in job levels:

Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	April	Pct. chg.	Year-to-date	Pct. chg.
Total	6,665	2.8	25,551	3.4
Durables	2,374	1.9	9,035	2.8
Bldg. mat.	266	0.8	920	-0.4
Auto dlrs.	1,408	-4.2	5,289	-1.8
Furniture	307	7.0	1,258	12.5
Other	393	27.2	1,568	15.5
Nondurables	4,291	3.2	16,516	3.7
Gen. mdse.	705	4.8	2,393	4.4
Food/grocery	1,330	1.2	5,401	3.1
Gas	384	-1.5	1,524	4.7
Apparel	338	3.0	1,213	4.0
Eat/drink	821	4.6	3,046	4.5
Drugs	253	-0.8	1,015	-0.8
Other	460	11.9	1,924	5.4
Seas. adj. total: April		6,761		
March		6,923		

Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census. Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis. Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability. As a result, only pct. changes are shown.

New Pennsylvania motor vehicle registrations
(percent change from year ago)

	Total registrations	Pct. change
April	52,141	-18.0
1990 YTD	201,680	- 7.2
12-month total	649,786	- 8.3

Source: R.L. Polk & Co.

down 22,000 from a year ago and 2,000 (seasonally adjusted) from April readings. **Nationwide, there are some preliminary signs that manufacturing's fortunes are beginning to stabilize. While these signs do not suggest that growth in manufacturing activity is likely to pick up, they do suggest that the worst may be behind us. Should such a trend materialize, it would surely benefit the Commonwealth. Clearly, this sector's fortunes merit extra attention in the months ahead as a clue to where Pennsylvania's economy is headed.**

Two trends stand out concerning the most recent readings of service producing jobs. There is a large increase in federal government jobs in May. Specifically, jobs total a seasonally adjusted 153,000, up from 146,000 in April. The hiring of temporary census workers no doubt accounts for most, if not all, of the increase. Similar patterns are apparent during the first several months of 1970 and 1980. If historical patterns hold true, by the end of the summer job levels will return to normal. Secondly, retail trade job totals are off considerably in May, both on a seasonally adjusted basis compared to April and from a year ago. Still, because of the strength in federal government and service hiring, service producing jobs as a whole are up slightly during May.

In light of the weak retail trade job performance in recent months, a sub-par trend with respect to sales is not especially surprising. Through April, sales are up a weak 3.4 percent (table) from a year ago, not nearly enough to make up for price gains. Weakness is fairly evenly spread across both the durable and nondurable goods categories. The downtrend in new motor vehicle registrations, an indicator

of auto-related spending, shows no signs of abating. The general slowdown in retail activity in the State has pushed down the growth rate of sales and use tax revenues in Pennsylvania.

Historical job trends in practically all Pennsylvania industry groups provide evidence of the State's weak showing vs. the nation throughout the 1980s. In every industry but construction, Pennsylvania's share of U.S. jobs declined between 1982 and 1989 (chart). In manufacturing, Pennsylvania's share dropped from 6.2 to 5.4 percent. Even in the fast-growing services industries, Pennsylvania accounted for 5.1 percent of all jobs in 1989, down from 5.5 percent in 1982.

While there is a minimal amount of improvement noted compared to April, employment and unemployment trends through May depict an economy which is essentially holding steady. Through the first five months of the year, employment is off slightly from a year ago while joblessness has increased a bit. The general uptrend in initial claims for unemployment insurance evident since the beginning of 1989 points to a continuation of rising unemployment in the Commonwealth.

— William D. Anderson

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